Last Action:

Senate Floor

April 24, 2009

Phase III Bonding Bill
Senate File 477

DRAFT

Executive Summary Only

An Act authorizing the treasurer of state to issue annual appropriation bonds, and creating an annual appropriation bonds debt service fund, an appropriation bonds capitals fund, a vertical infrastructure restricted capitals fund, making appropriations, and including an applicability provision.

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FUNDING SUMMARY

- Creates the Appropriation Bonds Capitals Fund (ABC Fund) to receive net bond proceeds of $105.0 million from the issuance of appropriation bonds.
- Appropriates $5.0 million from the ABC Fund to the Iowa Energy Center for the Alternate Energy Revolving Loan Program
- Appropriates $100.0 million from the ABC Fund to the new Vertical Infrastructure Restricted Capitals Fund.

BONDING SUMMARY

- Authorizes the Treasurer of State to issue appropriation bonds. Appropriation bonds are a special type of limited obligation bond that do not require a designated revenue stream as does a typical revenue bond, thus the State may opt for any source of funds for repayment. Appropriation bonds also do not require the State to pledge its full faith or credit through taxes and resources or charge against the general credit or General Fund of the State as would be required for General Obligation (GO) bonds. Iowa does not have any outstanding GO bonds. Appropriation bonds are expressly conditioned on the State making an affirmative act to appropriate funds for repayment each fiscal year.
- Debt service on the proposed bonds is estimated to be $8.4 million per year if a debt service reserve fund is needed. In contrast to revenue bonds, appropriation bonds are marketable without a reserve fund. For a revenue bond, the source of repayment is a designated revenue stream and the debt service reserve fund is needed to protect bondholders in case the revenue stream is inadequate. For appropriation bonds, the source of funds for repayment is flexible and bondholders may not require a reserve fund. Bonds will be issued and interest will be capitalized. The first debt service payment will be in FY 2012 and bonds will have a duration of approximately 22 years. The last bond payment is expected to be in FY 2034. Bonds will be tax-exempt and must meet certain requirements of the Internal Revenue Code. Total new debt is projected to be approximately $213.0 million. The projected interest rate on the revenue bonds is approximately 4.9%.

DIVISION I

AUTHORIZATION AND SPECIFICATIONS FOR BONDS

ANNUAL APPROPRIATIONS BONDS

- Authorizes the Treasurer of State to issue, sell, and refund annual appropriation bonds. Specifies that appropriation bonds and any interest earned on the bonds will be tax-exempt.
- Sets the maximum aggregate net proceeds amount at $105.0 million, excluding any refunding of outstanding annual appropriation bonds. Normally, tax-exempt bonds allow for one refunding.
NOTE: The Treasurer of State advises that any refunding would only occur if it was cost-effective because of decreasing interest rates. The results would either be a decrease in debt service payments or the ability to generate additional proceeds for State use at the same amount of the existing debt service payments. Post-refunding debt service payments would not exceed pre-refunding debt service payments.

AUTHORIZATION AND SPECIFICATIONS FOR BONDS	• Specifies the bond proceeds will be used for alternative energy projects and for purposes of the new Vertical Infrastructure Restricted Capitals Fund.
STATE NOT OBLIGATED BEYOND CERTAIN MONEYS	• Specifies the annual debt service on appropriation bonds is payable solely from the moneys appropriated for a certain fiscal year to the debt service fund or reserve fund created for that purpose. The bonds are not secured by the full faith and credit or the taxing powers of the State. Annual appropriation bonds do not obligate the State to make payments beyond any fiscal year that has sufficient funds appropriated.
SUBJECT TO NONAPPROPRIATION	• Specifies that if the funds are not appropriated for a fiscal year, the State will not be obligated to make a payment from any source of any amounts beyond the amount of the previous appropriation. The State will not be held liable for the debt or any repercussions from the lack of an appropriation for payment of the debt service. Annual appropriation bonds are subject to nonappropriation and are expressly conditioned on the State appropriating funds for repayment. Any annual appropriation bonds will include a statement for the bondholders of the limitations of the State's liability.
BUDGETING AND APPROPRIATIONS FOR PAYMENTS	• Requires the Treasurer of State to report annually by January 1 to the Governor and the General Assembly the amount needed to make the payments for the debt service. • Requires the debt service appropriation to be made to the Treasurer of State. • Requires amounts appropriated to restore the reserve fund to be paid to the Treasurer of State.
INTENT OF GENERAL ASSEMBLY – NOT A LEGAL OBLIGATION	• Specifies the intent of the General Assembly to make timely appropriations to pay the debt service. Specifies that the intent language does not create, and is not to be construed as creating, a general, legal, or enforceable obligation. The decision to appropriate funds is at the discretion of the General Assembly.
NOT SUBJECT TO ACROSS-THE-BOARD REDUCTIONS	• Specifies that amounts appropriated for purposes of annual appropriation bonds payments are not subject to across-the-board reductions.
SUBJECT TO NONAPPROPRIATION	• Specifies that if the funds are not appropriated for a fiscal year, the State will not be obligated to make a payment from any source of any amounts beyond the amount of the previous appropriation. The State will not be held liable for the debt or any repercussions from the lack of an appropriation for payment of the debt service. Annual appropriation bonds are subject to nonappropriation and are expressly conditioned on the State appropriating funds for repayment. Any annual appropriation bonds will include a statement for the bondholders of the limitations of the State's liability.

DEBT SERVICE FUND AND RESERVE FUNDS

- Creates an Annual Appropriation Bonds Debt Service Fund for purposes of receiving the appropriations that are intended to pay the debt service on any outstanding appropriation bonds.

- Authorizes the Treasurer of State to create one or more reserve funds for purposes of issuing annual appropriation bonds.

DIVISIONS II AND III

CREATION OF NEW FUNDS AND APPROPRIATIONS

APPROPRIATION BONDS CAPITALS (ABC) FUND

- Creates the ABC Fund to receive net proceeds from appropriation bonds issued and specifies that the ABC Fund will be used for infrastructure projects. Interest earned on the Fund will be credited to the Fund.

- Requires an annual infrastructure report for appropriations received from the ABC Fund by January 15. This is consistent with State reporting requirements for appropriations from any of the infrastructure and bonding-related funds.

VERTICAL INFRASTRUCTURE RESTRICTED CAPITALS (VIRC) FUND

- Creates the Vertical Infrastructure Restricted Capitals Fund for the purpose of public vertical infrastructure projects. Specifies that "vertical infrastructure" includes only land acquisition and construction, major renovation, and major repair of buildings, all appurtenant structures, utilities, and site development. Specifies that "vertical infrastructure" does not include routine, recurring maintenance, debt service, or operational expenders or leasing of a building, appurtenant structure, or utility without a lease-purchase agreement.

- Requires an annual infrastructure report for appropriations received from the VIRC Fund by January 15. This is consistent with State reporting requirements for appropriations from any of the infrastructure and bonding related funds.

IOWA ENERGY CENTER

- Appropriates $5.0 million for deposit into the existing Alternate Energy Revolving Loan Fund for purposes of encouraging projects that develop alternative energy production facilities and small hydro facilities throughout the State. Specifies the Center must track the bond proceeds separately and may not use the funds for administration planning.